

**“Domestic Source Restrictions Threaten Free Trade: What is the Federal Government
Doing to Ensure a Level Playing Field in the Global Economy”**

Opening Statement of Chairman Davis

Friday, May 13, 2005, 10:00 a.m.

Room 2154 Rayburn House Office Building

Good morning. A quorum being present, the Committee on Government Reform will come to order. I would like to welcome everyone to today’s hearing on foreign government efforts to institute unfair procurement rules to gain an economic advantage over U.S. companies.

I am particularly concerned with recent actions by the Chinese government. China recently circulated draft rules on government software procurement. These rules would make it virtually impossible for American software companies and other non-Chinese firms to provide products and services to the Chinese government, China’s largest purchaser of information technology products.

The rules would require American companies striving to do business with the Chinese government, to manufacture all of their products in China and to register their copyrights in China before they register them anywhere else. In addition, at least 50 percent of the product development must be done in China. These rules make participation in the Chinese government market nearly impossible for U.S. firms.

The U.S. software industry already has lost billions of dollars in export revenue due to rampant piracy and counterfeiting in China. The Committee has previously held hearings on intellectual property and was astounded to learn that 92 percent of China’s software products are pirated. A ban against Chinese government procurement of U.S. software would eliminate our industry’s best opportunity to expand its legitimate exports to China.

I am, of course, concerned about the direct impact of the proposed regulations on the U.S. software industry. But even more important is the impact on world trade and the discriminatory precedent that would be set if China were to adopt such onerous rules. The fact that the U.S. trade deficit with China has reached record levels adds to my concern.

Additionally, China should beware of the law of unintended consequences. The proposed regulations would deny China’s government the ability to use the world’s best software and undermine China’s efforts to encourage the active participation of U.S. software companies in developing a vibrant software economy in China.

For the global economy to operate to the benefit of all nations, each country must have procurement systems that are non-discriminatory, transparent, merit-based, and technology-neutral.

The primary purpose of today’s hearing is to get a better understanding of our government’s efforts to ensure a level playing field for U.S. companies abroad.

We have two distinguished panels of witnesses before us today. On the first panel we will hear from Benjamin Wu from the Department of Commerce Technology Administration, and Charles Freeman from the Office of the United States Trade Representative, who will discuss their efforts to dissuade China from implementing this and other discriminatory policies. Our second panel features private sector representatives from the Software Information Industry Association, Business Software Alliance, and U.S. China Business Council. These representatives will explain the implications of the Chinese law on American competitiveness.

I welcome all of the witnesses to today's hearing and look forward to their testimony.